

February 26, 2003

To: Supervisor Yvonne Brathwaite Burke, Chair
Supervisor Gloria Molina
Supervisor Zev Yaroslavsky
Supervisor Don Knabe
Supervisor Michael D. Antonovich

From: David E. Janssen
Chief Administrative Officer

STATE BUDGET UPDATE

The Legislature has resumed work on the mid-year budget reductions called for by the Governor. Bills containing \$3.5 in budget cuts in the current year (compared to \$5.5 billion requested by the Governor) were approved by the Legislature at the end of January but were never sent to the Governor after he indicated he would veto ABX1 4, the VLF "trigger" language, which was linked to the budget bills. On Monday, the Senate approved revised versions of the earlier bills without the provision linking them to enactment of ABX1 4. In addition, the Senate passed a measure to provide school districts with additional flexibility in meeting the 20-1 class size ratio necessary to qualify for supplemental funding.

It is not clear what the Assembly will do. As Senator Burton indicated: "It gives the Assembly an option..." Assembly Democrats are meeting today to discuss the matter. While the Governor has said that the Finance Department attorneys have advised him that existing law provides sufficient authority to trigger a VLF increase in the event that the State cannot afford to continue to backfill local governments, the Controller, who actually writes the checks to local governments, has said he does not believe he has the authority to say there are insufficient funds to continue the backfill. Supposedly the attorneys are trying to resolve the matter, in which case if the Finance Department attorneys' position prevails, it is widely believed the Governor will pull the trigger to raise the tax claiming he is simply following existing law. According to this morning's *Los Angeles Times*, Speaker Wesson indicated that the Assembly was not likely to vote on the Senate bills until they know if the car tax will go up based on current law.

Items of interest to the County in the two budget bills include: continued funding of Stage 3 CalWORKs Child Care and rejection of the Governor's 50 percent reduction in the Public Library Foundation.

While there are reasons for pessimism given the magnitude of the State's budget problem, there are also some encouraging signs. The fact that the Governor gave the Legislature a complete and balanced budget proposal in January, according to the LAO, rather than waiting until May to submit the "real" budget should make it easier for the Legislature to begin serious work on the budget now rather than waiting until May. A bipartisan group of 12 Assembly members have been meeting privately since January to discuss approaches to solving the budget crisis, free of the constraints that often face caucus leaders when they are required to take public positions.

Budget Hearings

Now that the Legislative Analyst has provided the Legislature with its detailed analysis of the Governor's budget, hearings on various parts of the proposal have begun in earnest in both bodies. The Health and Human Services Subcommittee of the Assembly Budget Committee held an informational meeting last night. A joint meeting with the policy committee on realignment is tentatively scheduled for March 11 and 12, 2003. The Senate Budget subcommittees will begin their work on Monday, March 3. Because of the large number of issues of County interest that will be addressed in multiple hearings, departments are advised to regularly check the Senate and Assembly websites for their most recent schedules and agendas. The respective web sites are www.sen.ca.gov and www.asm.ca.gov.

Pursuit of County Position

To help address the County's health care system budget deficit, the Board of Supervisors voted on October 29, 2002 to close Rancho Los Amigos National Rehabilitation Center (Rancho) in June of 2003, if no viable alternative governance structure is found. Should it not be possible for whatever reason to effectuate the complete closure, it may be necessary for the County to make intergovernmental transfers to the State for Rancho under the Disproportionate Share Hospital Program (DSH), even though the hospital could close before receiving the payments which would ordinarily accrue following such a transfer, resulting in an estimated loss to the County of \$27 million. DHS recommends that the County seek legislation to ensure that the County remains eligible to receive DHS payments following the closure of Rancho, and we concur.

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Consistent with the Board's action to close Rancho, and existing legislative policy to support the fair and equitable distribution of DSH dollars, our Sacramento advocates will seek legislation to ensure that the County will continue to be eligible to receive DSH payments following Rancho's closure.

We will keep you advised of further developments.

DEJ:GK
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 Coalition of County Unions
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